

## THE PERIPHERAL INTEREST: SCOTLAND, 1992 AND ALL THAT

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For all the Brave New World talk of “hands-off” government during the previous decade, Scottish business – indeed, Scottish life – appears to have remained wedded to some kind of consensus thinking as it enters the 1990s. Whether the issue at stake is training, export prospects, or transport, industry maintains some broad agreement on what is required for the general good.

In this regard, Scottish business leaders have more in common, arguably, with their counterparts in the Irish Republic or some mainland European states, than with those in southern England. Of course, the cause of this mutual support is as much a general awareness of Scotland’s geographically-peripheral status in north-west Europe, as it might be driven by some great egalitarian instinct.

It is that sense of common ground which has strained links between Scottish business and the Conservative Party itself; and particularly as Europe comes to dominate the terrain of domestic debate. It has been difficult for leading Conservatives to persuade business that corporatist Labour creations such as the Scottish Development Agency (SDA) are essentially a bad thing – interventionism, and all that – when so many enterprises have owed their creation, or their survival, in some part to the SDA.

Since 1989, when Mrs Thatcher’s great electoral battleship began to founder, there have been more clear signs of unrest among the Tories’ natural constituency, the business world. Nowhere has this been more apparent than in Scotland and the North of England, where unease has been accentuated by concern at the prospect of a Channel Tunnel, which might suck more investment southwards, and by the creation of the Single Market in 1992. The unknown is about to become reality, and there prevails a sense of nervousness as that European dawn approaches.

First of all, 1992 perhaps should be defined. Put simply, it means that hundreds of internal regulations affecting the supply of goods and services between EC member-states will be either scrapped or “homogenised”. In theory, Scottish lawyers will be able to operate, or co-operate, with their French counterparts. Haulage firms will find it simpler, bureaucratically, to transfer loads across borders. Dutch companies will be entitled to bid for Glasgow parks department contracts, as one has attempted to do already. Inspired by the United States, European politicians and bureaucrats envisage

one great market of 320 million people – even larger if Eastern Europe begins to participate, or if Austria and Norway enter the EC.

Colchester and Buchan, who researched the implications of all this<sup>(1)</sup>, have pointed out that “1992 is a process, not a red-letter day”. The relevance is that, although national markets will prevail at first, cross-national markets will become more accessible. “The cost of transport relative to the cost of manufacture will come down.” They envisage an EC where haulage costs fall, where airlines come under pressure to reduce charges, and where rail transport undergoes a renaissance.

While governments have adopted different interpretations – the reluctant see it as “a European state by stealth”, and the Europhiles as an inevitable process towards greater social and economic union – Colchester and Buchan took specific examples to illustrate 1992’s likely result. They concluded that the manufacturers who would find life most simple would be those who make or offer products and service which are either “high value-added” goods such as personal computers or branded luxuries, or specialised services such as investment banking or investment management. The latter is good news for the Scottish financial sector, and the former looks promising for the multinationals operating in “Silicon Glen”, or for the makers of whisky.

Transnational companies, such as Unilever, will find advantages too, in that production can be more easily spread, with separate product-lines centralised at various European points. Their key will be to maintain separate, or distinctive, marketing profiles to meet “local” tastes. For instance, British holiday-makers often find Findus products in their Spanish supermarket’s freezer department which might not be available at home.

Whatever shape Europe has taken by the end of the century, the great sea-change which began in Budapest, Warsaw, and Berlin during 1989 has served simply to draw key issues into sharp focus. If Scottish business has been concerned about more direct Western competition, it might be even more worried about the emergence of a greater additional threat – to labour and investment opportunities – from Eastern states such as Poland, Hungary, and Czechoslovakia.

The irony is that it might have been much different; Scotland could have entered the 1990s with a firm transport infrastructure. It might have achieved that much-vaunted “high wage, high skill” economy, to which lip-service has been paid by both sides of the industrial divide. It could have avoided the distracting, and depressingly parochial, debates over Scottish Enterprise and Lowlands airports policy. And the nation’s promisingly export-led manufacturing industries could be thriving, instead of growing nervous at the painfully-long period of high interest rates, which threatened in turn to curtail crucial manufacturing investment.

It is ironic, too, that the solutions to Scottish industry's main concerns lie in the hands of the very Government which has clung to that "hands-off" creed. The fact is that high interest rates were used by the Treasury to combat the over-heating economy of South-east England. Northern-based enterprise, more rooted as it is in manufacturing, had much to lose from a sustained period of such a crude economic instrument as that introduced by former Chancellor Nigel Lawson, and wielded later by his successor.

Scottish economic performance in 1989-90 appeared in most analyses<sup>(2)</sup> better than that of the south, but this was partly because the retail and wholesale sectors were affected less by consumer belt-tightening than in the debt-laden, highly-mortgaged households of the south-east. Overall, Scots borrow less money, and so many were cushioned from the most extreme effects of high interest rates. With proportionally more disposable income available, Scots carried on buying "white goods", protecting the retail sector from the sudden slumps experienced in the south<sup>(3)</sup>.

Another fact is that much of the transport has hinged, inevitably, on the public sector. British Rail, criticised furiously for its less-than-lustrous proposals to connect Scotland with the Channel Tunnel, pointed simply to the Government's rule that all major investment must enjoy an unusually-high rate of return of eight per cent. The great airports' debate, resolved finally in Glasgow's favour and to Prestwick's detriment in March 1990, had dragged on for years, partly because of the Government's determination to save former Defence Secretary George Younger's seat in Ayr<sup>(4)</sup>.

Before Mrs Thatcher's new Chancellor, John Major, rose to make his first Budget speech that year, a survey<sup>(5)</sup> of Scotland's top 200 companies found that a staggering 85 per cent of them believed that our transport communications were "less than adequate" for 1992 and the tunnel opening. Just one per cent believed they were "more than adequate".

So what are the main issues facing Scottish business in 1992 and the decade that follows? And just who, if anyone, speaks for Scottish business? What are the "single market's" likely effects, and how might they play a role in Scottish political debate? Since Scottish business, employment, and a large part of our culture relies upon private-public sector co-operation, and on public policy, these questions must be addressed. These are concerns which have been voiced in every corridor of public life, from trade union conference to corporate seminar. Since the Govan by-election in 1988, the Scottish National Party has sought to exploit the situation by adapting its campaign to one of "Independence in Europe", arguing that Scots may well do better with a small, but direct, representation in Europe, rather than relying on a single British Cabinet Minister, the Scottish Secretary, doing their lobbying for them. There is enough evidence, some anecdotal and some from opinion polls, to suggest that their stance has struck a chord among Scots, and even among Labour activists and voters. The following is a personal view, drawn from

covering the creation of Scottish Enterprise, the great transport wrangle, and Europe.

### The Single Market

If Scottish business is not well down the road to preparing for 1992 by now, it may as well not bother. There are signs that a large section of corporate Scotland has done – or rather, not done – just that. Much has been made of major innovations by a handful of companies, such as the Royal Bank Group's acquisition of a major stake in an important Spanish counterpart, Banco Santander. Whether this is typical of companies of the Royal's size is a moot point. While major employers with a traditionally export-orientated outlook, such as Coats Viyella, Weir Pumps, or John Brown Engineering, can argue that they are in Europe already, there is considerable doubt as to whether many firms have awakened fully to 1992 and its implications even yet.

That pre-Budget System Three survey of the Scottish Business Insider's Top 200 firms, commissioned in March 1990 by BBC Reporting Scotland and the accountancy firm Pannell Kerr Forster (PKF), included a section on Europe<sup>(6)</sup>. Forty-six per cent of respondents (representing senior directors of those 139 firms which replied) claimed to have formulated a "European strategy", while 50% had not done so. Thirty-two per cent said they had made appropriate financial arrangements, while just 25% had recruited specialist personnel. But, turning those figures around, the survey showed that, while 46% of Scotland's biggest employers had formulated a strategy, around the same figure had no plans to recruit specialist personnel, have a physical presence in Europe, or instigate funding. As David Jenkins, a PKF tax partner, remarked succinctly: "It would seem that 'preparing a strategy' in a lot of these companies means deciding to do nothing."<sup>(7)</sup>

Significantly, the financial sector has led the way here. The Royal Bank's Spanish connection has led in turn to other footholds in Portugal and West Germany. The insurers' Scottish Provident has acquired branches in Spain, and opened another in Athens. Fund managers Murray Johnstone are in Paris and Hamburg. The lobby group Scottish Financial Enterprise (SFE), with more than 200 member-companies employing 180,000 people, has been urging its counterparts in Catalonia, Bavaria, and elsewhere, to consider grouping the strengths of a "regional" network to counter-balance the all-consuming power of London, Paris, and Berlin<sup>(8)</sup>.

An earlier survey, by the accountants' KPMG Peat Marwick<sup>(9)</sup>, had suggested in 1989 that manufacturers were sitting complacently, assuming that the removal of internal tariffs would not affect them directly; that European rivals would not be bidding for local work. The findings suggested, amazingly, that some manufacturers regarded England as their most likely "export" market.

The Government can hardly be blamed for these attitudes. The Department of Trade and Industry (whose staff answer the telephone with the rather stomach-churning "DTI, the Department for Enterprise. How can I help you?") has been plastering bill-posters all over the land, asking questions like "The single market is here. Where are you?"

The truth may be that some companies have become demoralised about the future since those frantic days of the 1980s, when survival became the corporate by-word. Since the Royal Bank fought off the Hongkong and Shanghai Bank, and after the dispiriting struggles for Bell's Whisky and the Distillers Group, many boardrooms became noted for their sense of cynicism and foreboding. They watched as the City toyed with those few firms brave or ambitious enough to take a Stock Market, or Unlisted Securities Market, placing; and they were dismayed when so many others sold out to the big boys before even attempting flotation. As Professor Jack Shaw, SFE's erstwhile executive director, lamented: "People talk about companies being 'in play', as if it is all some sort of game."<sup>(10)</sup>

As Collins' publishers, Anderson Strathclyde, and Britoil succumbed to City power-play, and as highly-leveraged take-overs became the norm, it appeared to some that the legislation on fair trading and monopolies had been torn up by the DTI; a feeling that was all but confirmed by the Office of Fair Trading's director-general, Sir Gordon Borrie, in Edinburgh in 1989, when he dismissed regional concerns about diminishing local control. "I can well understand the concern about the effects of mergers in encouraging decision-making to drift to the South. I do not seek to downplay the importance of such trends. I have to say, however, that current Government policy is based on the belief that the interests of all parts of the UK will be best served, in the long run, by the freest possible operation of market forces," said Borrie. "It is not thought that mergers policy should be used as some sort of selective and highly-speculative form of regional assistance."<sup>(11)</sup>

Some corporate self-confidence may have been restored by the humbling of the brewers Elders IXL in its abortive bid for Scottish & Newcastle that year, an episode which lost the Australian predator a rumoured £90m. The public exorcism which faced BP when it announced 970 Scottish redundancies – just 15 months after assuring that it would do no such thing during its take-over of Britoil – could be interpreted as a turn in the tide which had washed away so much indigenous ownership during the previous decade. Then again, British Steel's contemptuous attitude to the Scottish lobby over the Ravenscraig issue underlined the theory that private companies see little need to bow to "regional" concerns<sup>(12)</sup>.

Concern about City attitudes has been articulated by David Murray, Scotland's classic self-made man; a steel stockholder who has diversified into the leisure and property markets, and who is best-known for his ownership of Glasgow Rangers Football Club. Murray has refused to allow the financial

sector to interfere in the boardroom of Murray International Holdings, having sold off a mere 25% of his shares simply to raise capital for other ventures. Typically, he distrusts the idea of an entrepreneur making money for others who contribute little or nothing to the business. And he has treated with disdain others who sold out for a quick profit.

Like many successful people, Murray was dealing in Europe long before the 1992 concept was being discussed in Brussels. Unexpectedly, the European influence has been illustrated best by his football club, whose Ibrox Stadium is Scotland's best-prepared for new European rules on spectator facilities, and whose famous signing of its first Roman Catholic star player, Maurice Johnston, was instigated partly by the club's on-field ambitions abroad<sup>(13)</sup>.

Despite his trenchant criticism of interest rates' policy and laissez-faire attitudes to take-over deals, Government supporters wish Scotland spawned more business leaders like David Murray.

The problem for the Conservatives is that even they cannot rely on unquestioning loyalty from people like him in Scotland.

If that point is to be supported anywhere, it is in the conception and rearing of Scottish Enterprise. Where Government insisted on the kind of non-interventionism which has been popular south of the Border – on transport policy, privatisation, and on takeovers – it drew flak in Scotland. When it decided to meddle, as it has with Scottish Enterprise, it was drawn into greater controversy.

### Scottish Enterprise

When Scottish Secretary Malcolm Rifkind and his colleagues called a "summit" of Scottish business leaders at Dunblane Hydro in August, 1989, the Scottish Enterprise debate had reached a key juncture. Having unveiled its plan, based on the so-called "Hughes Initiative", the Government was under pressure to add flesh to the bones.

The SDA had never been the Conservatives' favourite. Right-wing MPs like Allan Stewart and Iain Sproat had opposed its creation from the beginning, in 1975. Yet both served on a Scottish Select Committee which studied inward investment in 1980, and supported some lightweight changes to its general strategy. Principal of these was the creation of Locate in Scotland, the "single door" jobs agency backed by the SDA and Scottish Economic Planning Department (later the Industry Department for Scotland).

But by 1988, the SDA had undergone startling change. The staunchly interventionist body, best known for its backing of huge public-sector projects such as the Glasgow East Area Renewal scheme (Gear), had become market-

led. Under the guidance of its chief executive for most of the 1980s, Dr George Mathewson, it became an aggressive investor, anxious to avoid lame ducks, more interested in spending on promising scientific, industrial, or tourist-related projects in the hope of attracting more private investment to Scotland.

By the time Mathewson departed (for the Royal Bank Group), all seemed in place. The SDA could claim with justification that it was one of Europe's most market-orientated public agencies, playing a key role in developing new industries such as electronics. The criticism that the SDA was bent too far in favour of Glasgow and Strathclyde appeared to have been defused a year later, when Mathewson's replacement, Iain Robertson, restructured its regional set-up to beef up its operations in the Borders, and the east coast<sup>(14)</sup>.

But the knives were out, somewhere. The SDA drew sharp criticism from the National Audit Office for its high-spending involvement in events such as the 1988 Glasgow Garden Festival and the building of the Scottish Exhibition and Conference Centre on Clydeside. Its high-powered PR image continued to upset some business people who, perhaps legitimately, resented the new brand of sharp-suited officialdom emanating from SDA headquarters in Glasgow's Bothwell Street.

One businessman in this league was Bill Hughes, head of the successful Grampian Holdings, and the then-chairman of the Scottish CBI. The story goes that he gave full vent to his feelings about the SDA – and his concern that training was not being run properly in Scotland – during a car journey north to Inverness. His companion, CBI press officer Gerard O'Brien suggested: "If you feel that strongly, Bill, then why don't you do something about it?"

This story has become legend in political circles. Hughes and O'Brien spoke to a journalist friend and produced a single-page draft proposal to merge economic development and training resources in Scotland. The new body, a merger of the SDA and Training Agency, had the tentative name, Enterprise Scotland. The *Glasgow Herald* published the Hughes Initiative on its front page, and things began to move quickly. Mr Rifkind and his colleagues expressed interest, and Hughes was invited swiftly to meet Prime Minister Thatcher at Chequers to discuss his plan.

This was soon after the Tories' disastrous Scottish showing in the 1987 general election; down from 21 seats to just 10. Mrs Thatcher, perplexed at her clear unpopularity north of the Border, may have been willing to try anything, and "Enterprise Scotland" seemed to answer several varied problems. Inevitably, when a formal plan emerged from the Scottish Office, it was clear also that the Conservatives would seek to minimise trade union and local authority involvement in the new body. Laurence McGarry, the then economic convener of Strathclyde Regional Council, remarked caustically: "Instead of having a vision on the A9, I sometimes wish that Bill Hughes had had a puncture."<sup>(15)</sup>

While the Labour Party opposed the plan, the Scottish TUC supported it, reflecting long-standing disquiet that the direction of the Sheffield-based Training Agency could be put to better local use by "customising" its activities, tailoring training to local needs. STUC General Secretary Campbell Christie reasoned that Scottish Enterprise would at least involve the irreversible move of training responsibilities to Scotland. In other words, a new Labour administration would find itself with a ready-made machine with which to drive the Scottish economy.

By the time Hughes joined Rifkind and his Industry Minister, Ian Lang MP, at Dunblane, he had become deputy chairman of the Scottish Conservative Party. Coincidentally, Gerard O'Brien had become its director of communications. The wishful thinking of a barely-political but enthusiastic businessman had become reality. Now it was to be sold to the 200 pinstriped men (only four women attended) who had been invited to the prospectus launch. Rifkind and his colleagues were at pains to point out that many business leaders were considering becoming involved already. This was bending the truth, at least.

By chance, I received a copy of an internal Scottish Office guest-list for the event. Marked beside several names were notes which said "likely chairman of consortium for Renfrewshire", "leading light of Lanarkshire", or simply, "may be persuadable". Some did emerge, months later, as members of the proposed local enterprise companies (LECs). Few had acknowledged interest publicly at the time of the launch<sup>(16)</sup>.

Before then, I sat in the office of a well-known self-made man, whose company employs 1,000 people, and who has been a vociferous supporter of the Conservative cause. When I asked, routinely, if he would become involved in his local LEC, he snorted: "You're joking. I haven't the bloody time!" I saw him later at Dunblane, bemused and unimpressed.

And this has been the great problem with covering the Scottish Enterprise debate. Many leading business figures, bellicose critics of the scheme round a dinner-table, will turn mute as soon as a microphone, notebook, or camera emerges. They do not welcome the prospect of being drawn into public controversy, or into criticising the Government in public, leaving that to a couple of ex-SDA insiders such as Peter Carmichael or Frank Kirwan<sup>(17)</sup>. And why should they? Although Scottish Enterprise has attracted a few notables, the idea that business people are eager to do their bit for the common good is largely myth. Some would argue that their prime responsibility to the community is to provide jobs. Should the head of a textile firm, for example, wish to sit on a committee whose aim is to improve training resources which might benefit a rival company?

The BBC/PKF survey, which revealed so much about attitudes to Europe, and concern about transport, found that just 12% of Scottish

companies believed that Scottish Enterprise would bring "much improvement"; coming as it did while the Scottish Office was doling out development grants of up to £100,000 to nearly a dozen fledgling LECs, this could hardly be interpreted as an overwhelmingly endorsement.

Most critics of Scottish Enterprise hope their misgivings prove unfounded. On paper, the opportunity is there for a major step forward in developing the Scottish economy, and particularly in adapting training to local needs. But its birth has been long and painful, coinciding with reports of soaring staff turnover and sinking morale within the SDA, and bitter criticism of Scottish Office bureaucracy holding up the LECs' early development. As Ian Wood, head of the Grampian consortium, remarked: "Businessmen don't like filling in forms."<sup>(18)</sup>

The point of dwelling on Scottish Enterprise while writing about 1992 is that it can be argued that such a wholesale change in public economic policy has necessarily distracted the attentions of the SDA, Scottish Office, and some leading business people. In 1990, a delegation of Poles, keen to establish a new post-Communist economy, arrived in Glasgow to consider setting-up their own form of SDA. The body they inspected was in the process of being dismantled and re-built, at vast expense in terms of personnel and policy resources.

All the potential is there for Scottish Enterprise to become a parochial battlefield, between rival LECs, and between the LECs and their masters in Scottish Enterprise and the Scottish Office. At the time of writing, Ministers have been unable to come up with persuasive evidence that this will not be the case.

### Scotland and the Channel Tunnel

If all this is bad news for Government supporters, the transport issue promises to emerge as the most important business-related debate to spill into the political arena. Before now, employment has been the only real economic issue to enter the Scottish political scene; many Tories acknowledge that the Gartcosh and Caterpillar controversies damaged their party's standing during 1986-87. This time it could be transport.

December, 1989, saw British Rail's long-awaited announcement of its network plan for British connections to the Channel Tunnel. These had been delayed, of course, by the extended row over the final route passenger trains would take from London to Folkestone, and over the scale of the re-development of King's Cross itself.

In Scotland, the plan met universal derision. The Scottish CBI, which has described Scotland's transport system as "woefully inadequate", could not bring itself to support the idea that all European freight traffic will be grouped

in North Lanarkshire before heading south on a rather convoluted route to mainland Europe<sup>(19)</sup>.

Business had hoped that direct freight services would be available. Even though BR has promised to provide a system which is at least as good as that on offer elsewhere in the UK, it was a trifle vague on just how it would do so. Equally, officials of BR's freight division in Scotland seemed confused when they predicted that the big advantage to rail freight which the Chunnel represents would increase annual turnover quickly, from 200,000 to 500,000 tonnes. This optimism was based on the assumption that the Ravenscraig steel plant, by far BR's biggest Scottish customer (accounting for more than half annual income of £40m) would survive intact. Challenged on that, officials insisted in turn that Ravenscraig's closure would not affect their own freight traffic projections. Logic was defied in one stroke.

Disquiet about all this – illustrated by that 85% result in the BBC/PKF survey – prompted the Scottish Office to urge business to lobby BR to produce stronger proposals. At the time of writing, BR has argued that it will perform with one arm tied behind its back so long as the Department of Transport insists on sticking with the "8% return" rule, and by Section 42 of the Channel Tunnel Act, which specifies that all rail developments must be developed on a commercial (i.e. profitable) basis. The decision in June, 1990, by Transport Secretary, Cecil Parkinson, to delay the high-speed London-Folkestone link, was interpreted as another nail in the coffin to Scottish freight hopes.

Meanwhile, the conversion of the A74 Glasgow-Carlisle road to motorway standard continues at snail's pace. The Clyde has lost its status as a major shipping river, and the main airports continue to suffer comparatively less investment than their rivals at Manchester and Stansted.

While the business lobby remains unhappy about transport, consumers are similarly upset. The Glasgow-Edinburgh rail link remains the butt of much commuter criticism. And the decision not to extend the massive electrification of the East Coast Main Line further north than Edinburgh has offended sensibilities in Tayside and Grampian.

### Ready for the Single Market

So is Scottish business ready for the Single Market? Although the surveys suggest not, the fact is that many indigenous firms will benefit from the resultant upheaval. Scotland, by its historical and geographical nature, has long been outward-looking on trade. Scottish firms, and especially manufacturers, have enjoyed long-established foreign trade links, which survived the end of the British Empire.

The Scottish Council Development & Industry's (SCDI) exports survey for 1988/89<sup>(20)</sup> showed that overseas sales had increased by 6.8% over the

previous year; that the Scottish share of UK exports had increased to 10%; and that, crucially, France and West Germany had overtaken the United States as major purchasers of Scottish goods. As expected, the most important export goods remained whisky and computers, although paper and printing and rubber and plastics sectors did well, and mechanical engineering had shown signs of recovery.

The SCDI has performed a particularly far-sighted role in encouraging European trade. "Europointer", its monthly digest of contract tender opportunities, contract awards, and company plans, is an indispensable tool for any company strategist. If nothing else, by listing just which contracts have gone to which foreign competitor, it emphasises what native firms are up against.

Financiers Allan Hodgson and Ewan Brown, in a report to the Scottish Economic Council's Single Market Committee, indicated one particular field where Scottish finance could seize the initiative. "There is no reason why Scotland should not aspire to be one of the principal venture capital centres of Europe. Venture capital is a decentralised activity which is beginning to develop a role in most European countries, and is not dependent on being close to the major international capital markets," they suggested. And they added, unironically: "There are already a number of mature and experienced venture capital managers in Scotland, including the Scottish Development Agency."<sup>(21)</sup>

The potential in financial services has not been missed in Dublin, where the former Custom House Dock is being transformed into a major international centre. The Irish have been targeting non-EC operators, mainly from the US and Japan, and offering low-tax incentives to choose Dublin as their foothold in a post-1992 Europe. One particularly clever idea has been to encourage large electronics companies, for example, to locate their European treasury operations in Dublin, thereby bolstering the manufacturing plants which have sprouted throughout Eire<sup>(22)</sup>.

For example, the decision in 1989 by American computer firm Wang Laboratories to close its Scottish factory and centralise European activities at its bigger plant in Limerick may have been connected to the fact that its financial division has offices in Dublin.

#### Who speaks for Scottish Business?

We come back now to the thorny question of whether or not Scottish business operates by consensus. Inevitably, in political terms, that requires some examination of its relationship with the Conservatives. The party's recently-formed Scottish Business Group, headed by people like James Gulliver, Bill Hughes, and the colourful financier Peter de Vink, has claimed success in persuading Mr Rifkind and his Cabinet colleagues to agree to a

"level playing field" on business rates, following years of disparity between Scotland and England. The group played a part, too, in the decision to abandon Prestwick's exclusive Transatlantic air traffic status<sup>(23)</sup>.

Until the late 1980s, and the emergence of the European issue, leading businessmen confined their political statements to making vague noises against the prospect of Scottish devolution, arguing that the higher taxes involved in supporting a Scottish Assembly could affect investment and drive away jobs. For most, that was done half-heartedly. Indeed, some leading figures, concerned at the centralisation of corporate power in London, will confess in private now that devolution in 1979 may not have been altogether bad.

It is clear that the effect of "hands off" government has strained relations between business and the Conservatives. For example, many will agree with Industry Minister Ian Lang that the future of the Scottish steel plants should remain purely a commercial matter for British Steel alone. But Ravenscraig and its satellites represent valuable business for many private companies, as well as British Rail and the Clyde Port Authority.

Labour and the SNP have enjoyed some success in drawing sympathy from the small business sector, which doubts Mrs Thatcher's claim to have its best interest at heart. But overall, it is clear that most business people fear the return of a socialist government which might increase taxation, or restore trade union rights too fully. The more likely implication of the poll surveys and the general criticism of policy is that Scottish business is trying to warn the Government that its support is not unequivocal. It is more a warning than a threat.

That followed the dire picture painted in an internal document drawn up for the SDA's Industry and Enterprise Development Directorate, which was rejected by the agency board, but leaked later to Opposition MPs<sup>(24)</sup>. The paper estimated that manufacturing employment had halved to 360,000 between 1966 and 1988; that employment by companies attracted from abroad had risen from 40,000 in 1955 to 120,000 in the mid-1970s, but then fallen to 70,000 10 years later; and that, between 1983-86 alone, 321 Scottish companies had been taken over by external firms, leaving just 98 Scottish public limited companies. Ministers sought to defuse the inevitable row that ensued. However, the statistics contained in that 19-page paper served as an antidote to all the upbeat predictions and claims which have poured out of SDA and Scottish Information Office during the last 10 years.

The point of all this is that it is clearly not enough for those on the Right to argue that "the market will prevail". In its own way, the Thatcher Government has been as interventionist as any other. Its encouragement of a consumer-led boom in the mid-1980s, and its refusal to curtail the over-heating of the south-east during that crucial period, led almost inevitably to higher inflation, and in

turn to the rough measure of sustained high interest rates into the 1990s.

The service sector, and particularly financial services, could cope with that, even if retailers found things tougher in London. But manufacturing, which had had little time to recover from the numbing crashes of 1979-82, found itself drawing in its horns on investment once interest rates shot up again. Faced with higher costs, wage demands fed by inflation, and increasing foreign competition, it has complained that it has had too little time to prepare for the European battlefield. Ironically, entry into the European Monetary System, which might have stabilised the pressures on industry, has been delayed because of inflation itself.

Government has intervened too in its dogmatic commitment to denationalisation. The privatisation of key industries, such as British Steel, British Telecom, and Britoil, led invariably to a diminishing of local control. While the French poured billions into high-speed railway systems to meet the Channel Tunnel, British Rail was being squeezed with privatisation in mind. British Steel's metamorphosis into a private-sector monopoly, answerable to no-one but the City, led to a reduction in product range as the company sought a bigger share of the mainstream European market. The implications for Ravenscraig became obvious, but no less depressing.

The only advantage 1992 has offered so far has been to Locate in Scotland, which – like other European inward investment agencies – has found it easier to persuade non-European operators from the United States and Japan to set up manufacturing operations before the creation of "Fortress Europe", a concept which is a fallacy in itself. Nevertheless, US concern about the possibility of European protectionism helped draw Motorola to Bathgate, Conner Peripherals to Irvine, and smaller concerns such as Wynn Precision, an automotive supplier, to Vale of Leven<sup>(25)</sup>.

Inevitably, few of those incomers envisage local research and development facilities. Operations are primarily assembly-based, and a second wave of investment could head just as easily for Spain, France, or even Eastern Europe.

Scotland remains a peripheral economic force, enjoying great strengths such as whisky, tourism, and electronics. But its inherent weakness is a lack of indigenous wealth and an over-dependence on foreign, or at least non-Scottish, capital. The onward march of Europe – and the implications for any business whose competition is eyeing it up from the other end of the Chunnel, from Brussels, Paris, or Hamburg – could underline that reality for all time.

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## References

1. *Europe re-launched: Truths and Illusions on the Way to 1992*, by Nicholas Colchester & David Buchan; Economist Books. The authors provided an abridged version also in the *Independent on Sunday's* business section on May 6th, 1990.
2. Successive Fraser of Allander quarterly reports showed that, while construction and manufacturing were pessimistic overall in 1989, retailing and wholesaling recovered their initial worries and reported comparatively good results. Brian Ashcroft, Fraser of Allander's research director, attributed this to lower Scottish mortgages and greater relative disposable income.
3. The Fraser of Allander's regular surveys for Scotland's four main Chambers of Commerce in Glasgow, Edinburgh, Dundee, and Aberdeen, reported that retailing was surviving best. Glasgow – helped by an influx of tourists during its designation as European "City of Culture" in 1990 – did especially well, while Dundee's relative success was seen as a reflection of lower property values, and therefore lower average mortgage payments on Tayside.
4. George Younger, Prestwick Airport's most prominent defender, had persuaded Cabinet colleagues to stick by the airport. His decision to leave Defence, and to stand down as Ayr MP at the next election, allowed Ministers to change policy. When he announced the results of a policy review in March 1990, Transport Secretary Cecil Parkinson conceded on BBC Reporting Scotland that the move might have taken more time if Mr Younger had not signalled plans to retire from politics.
5. The BBC Reporting Scotland/Pannell Kerr Forster survey of Scotland's "Top 200" companies was carried out by System Three. 139 companies responded on a wide range of issues, including Europe, Scottish Enterprise, the Budget, the environment, and transport. The transport response was by far the greatest reflection of corporate opinion recorded on any subject.
6. *Ibid.*
7. *The Scotsman*, March 19th, 1990.
8. BBC Reporting Scotland, May 29th, 1990; *Observer Scotland*, June 3rd, 1990.
9. This first emerged in a survey published by KPMG Peat Marwick McLintock on April 5th, 1989; the company repeated the findings in a compilation prepared for a press visit to the European Commission on November 13th, that year.
10. Interview, BBC Reporting Scotland May 5th, 1989.
11. Sir Gordon Borrie was speaking at a Scottish Financial Enterprise conference on "Hostile Bids and Investor Loyalty" in the Edinburgh Sheraton on May 5th, 1989. His speech was among those published later in booklet form by SFE.
12. Sir Robert Scholey, British Steel chairman, erupted in anger when challenged by reporters about Ravenscraig at the announcement of the company's record annual profits of £700m in London on June 11th, 1990. His contempt for the Scottish lobby was obvious, and he later tried in a letter to Scottish Secretary Malcolm Rifkind, to avoid explaining the full background to the planned closure of Ravenscraig's strip-mill (announced May 16th, 1990) by pleading "commercial confidentiality". He told BBC TV that "political influence is corruptive of the management drive for efficiency and improved performance". BBC Reporting Scotland, June 11th, 1990; *Observer Scotland*, June 17th, 1990.
13. Although Johnston's signing was long-overdue – before Murray's arrival, Rangers had had a long-standing "no Catholics" policy – some interpreted this as a necessity if the club was to realise its ambitions to play in a European "super-league".
14. Robertson, who never enjoyed the confidence of Lang and other Ministers, departed for a lucrative London job in finance, April 1990.
15. McGarry's remark was made during a Strathclyde Regional press conference

where he and council leader Charles Gray protested at the apparent exclusion of local authorities from Scottish Enterprise (December 1989).

16. The document is an internal Scottish Office briefing for the Dunblane "summit", when Rifkind, Ian Lang, and Bill Hughes, unveiled the Scottish Enterprise prospectus on August 31st, 1989. The comments quoted are made alongside several names on "Annex F", concerning lunch arrangements, which was sent to me by mistake.
17. Carmichael and Kirwan made their reservations known in several newspapers and in interviews broadcast on BBC Reporting Scotland on July 25th, 1989 (Carmichael), and January 8th, 1990 (Kirwan). Carmichael retired as the SDA's East of Scotland director, and runs an antiques shop in Edinburgh; Kirwan, former head of policy at the SDA, now works for his former boss, George Mathewson, at the Royal Bank.
18. Ian Wood spoke after Ian Lang MP had announced that the first four LECs were to receive development funding (BBC Reporting Scotland, February 5th 1990).
19. CBI lobby document, published in London in autumn 1989; also BBC Reporting Scotland report of December 14th, 1989.
20. "Scottish Manufactured Exports in 1988/89", published by SCDI on March 23rd, 1990.
21. "Towards 1992, Effects on the Scottish Financial Sector", Allan Hodgson and Ewan Brown; Report to the Single Market Committee of the Scottish Economic Council, November 1989.
22. BBC Reporting Scotland, June 28th and 29th, 1989; *Observer Scotland* July 9th, 1989.
23. Mrs Thatcher signalled that a Government U-turn was likely on Prestwick to a meeting in Edinburgh of the Scottish Conservative Business Group on September 6th, 1989 (BBC Reporting Scotland, September 7th). This followed months of backroom lobbying by business interests who were dismayed at the Government's previous commitment to Prestwick's retention of Atlantic traffic, at the expense of Glasgow. The Government knew also that it was about to lose a court appeal against one airline's use of Glasgow for flights to Florida.
24. The SDA memorandum became celebrated in Scottish circles. Having been rejected by the SDA board in late 1989, it was leaked to Shadow Scottish Secretary Donald Dewar, who published it prior to a Commons' debate on the Scottish economy on February 8th, 1990. Ministers attempted to defuse the leak by claiming that parts of the report had appeared in a *Glasgow Herald* column by Alastair Balfour two months' beforehand.
25. April 24th, 1990: Locate in Scotland's *Annual Report* detailed a successful year during which 64 projects were attracted, representing total investment of £850m and creating and safeguarding 12,000 jobs. However, these figures included all of Scotland's biggest ever planned investments, both of which had been announced only during the previous month. Both projects, by Motorola and Conner Peripherals, have yet to come fully on stream.